

# **Sector Update**

## Singapore REITs

### **Strategy and Technical Updates**

Phillip Monthly Report – October

The Phillip 20 Portfolio

# Disclaimer

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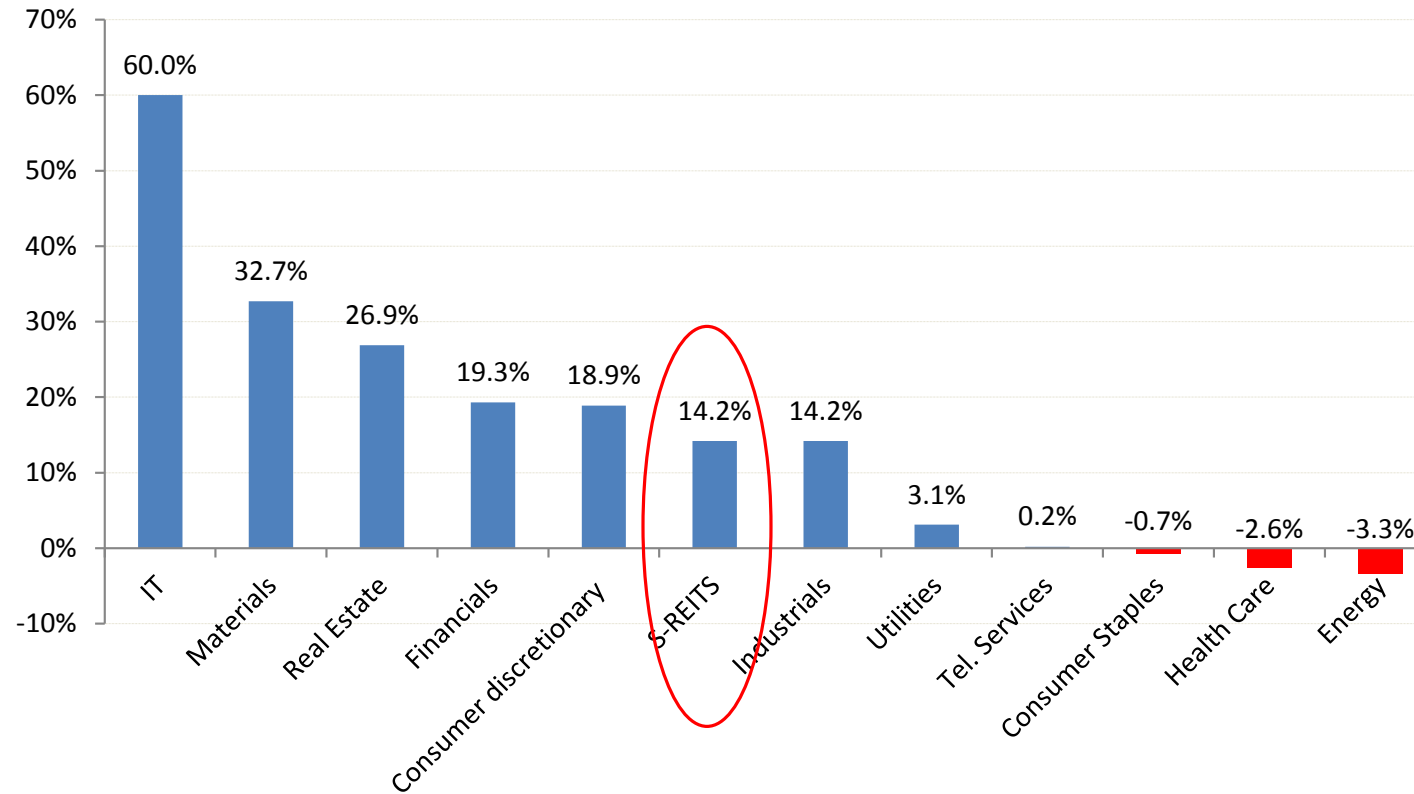
# Singapore REITs

## The 10 most commonly asked questions

Tan Dehong  
Phillip Securities Research Pte Ltd  
9 October 2017

# Singapore REITs – 10 commonly asked questions

## S-REITs: 6<sup>th</sup> best performing sector within STI in 9M17



Source: SGX Stockfacts, Bloomberg, PSR

# Singapore REITs – 10 commonly asked questions

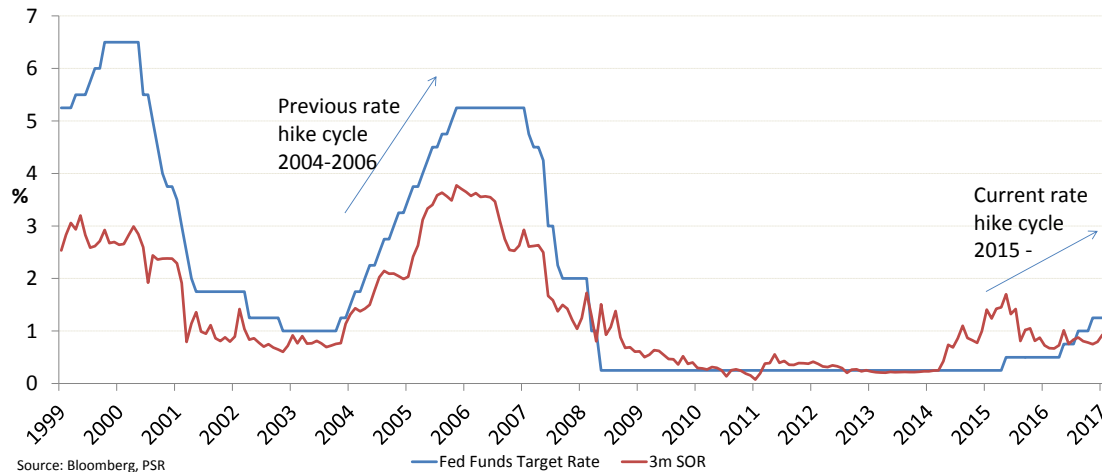
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1. What is the impact of US rate hikes on REITs and is it still safe to buy REITs?
2. Apart from higher financing costs, what other ways do higher interest rates affect REITs?
3. What is the outlook for each S-REIT sector – retail/commercial/industrial/hospitality?
4. How does SG REITs compare with regional REITs?
5. Is valuation attractive from a yield angle? How does S-REITs' valuation stand now compared with historical valuations?
6. Is book value a good way to judge if a REIT is under or overvalued?
7. Growth in global economies is accelerating. Wouldn't investors be better off looking at growth stocks instead of stable stocks like REITs/telcos/utilities?
8. Is a REIT with a larger portfolio of freehold properties better than another REIT with a portfolio of shorter leasehold properties?
9. How would you calculate and compare REITs' metrics and duration vs fixed income in falling, flat, rising interest rate environments?
10. What are key risks of investing in REITs now?

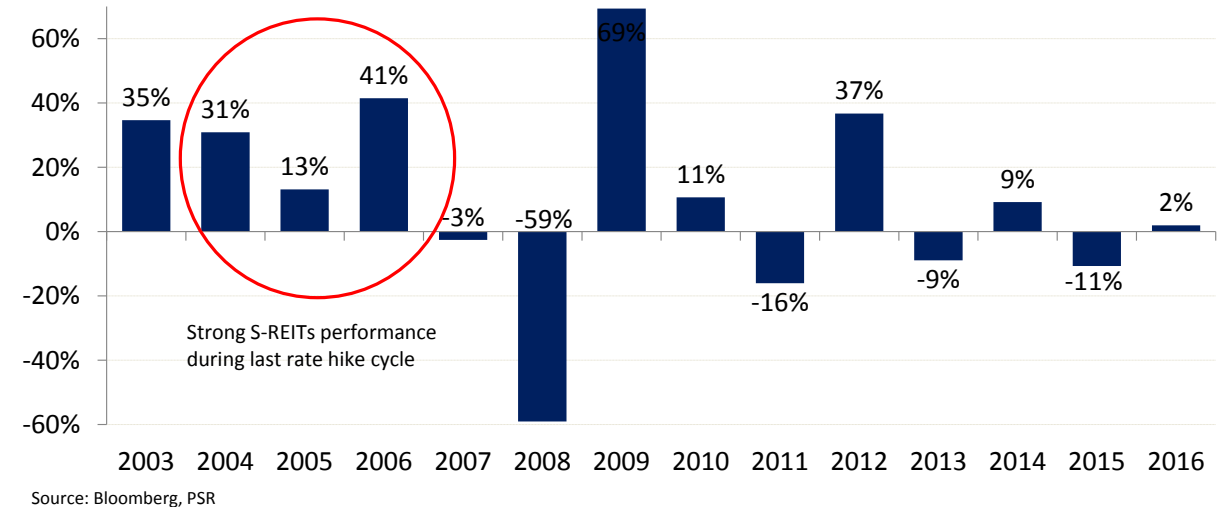
# 1. What is the impact of US rate hikes on REITs and is it still safe to buy REITs?

- Rate hikes in response to better economic data, not supply-side driven inflation
- Last rate hike cycle 2004-06 saw strong performance from S-REITs
- More important to have rents going up during rate hike cycle to offset impact of interest rate hikes

**Last rate hike cycle occurred in 2004-2006...**

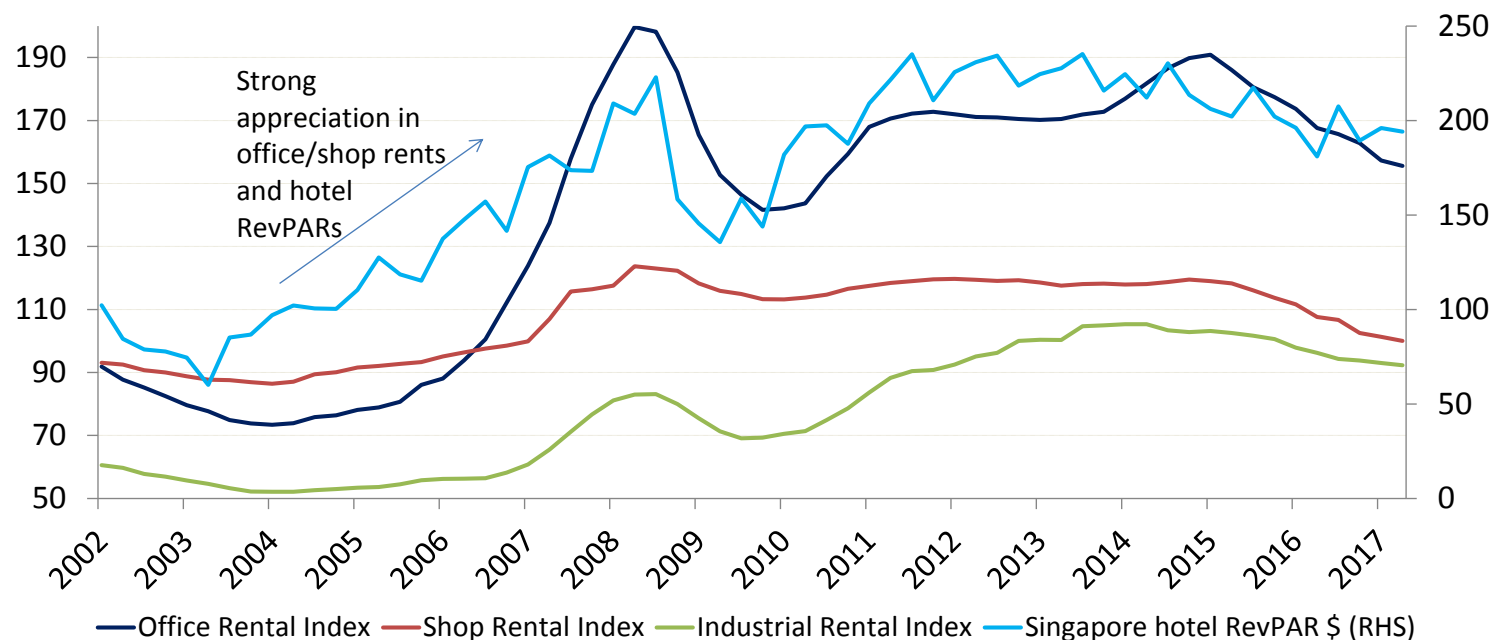


**But S-REITs managed a CAGR of c.26.5% during the period (2004-06)**



# 1. What is the impact of US rate hikes on REITs and is it still safe to buy REITs?

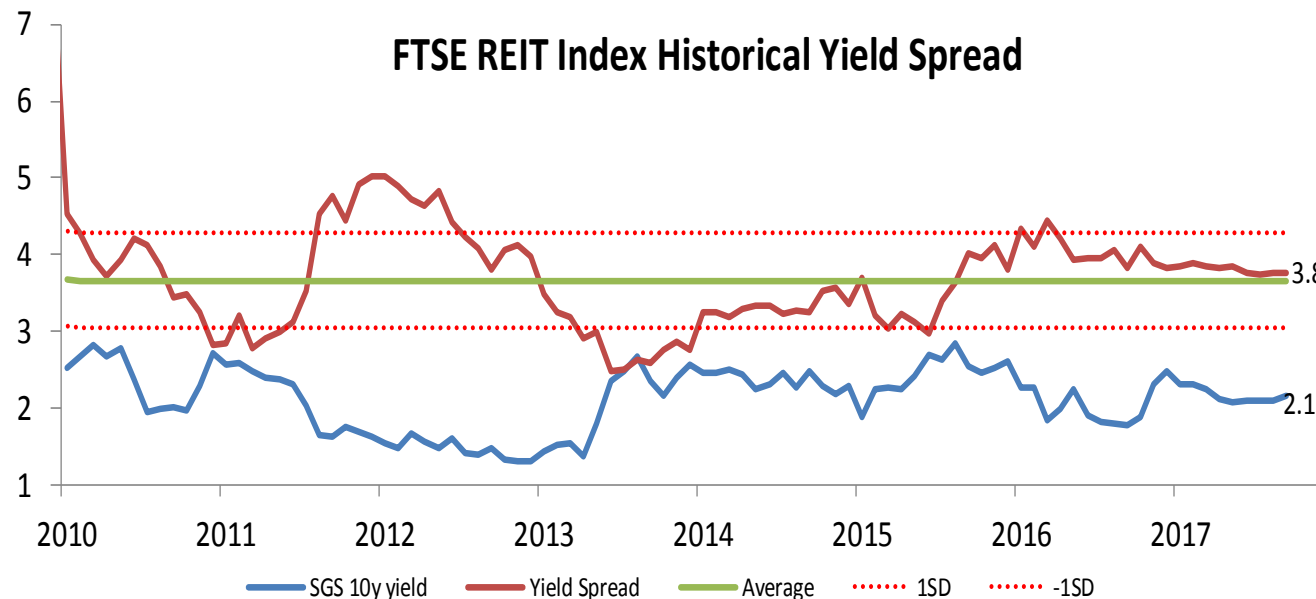
## Strong economic growth during the last rate hike cycle drove rents upwards



Source: Bloomberg, PSR

## 2. Apart from higher financing costs, what other ways do higher interest rates affect REITs?

- Increase in long term interest rates decreases appeal of REITs as asset class
- Competitive landscape amongst banks – tightening spreads on loans to S-REITs limiting upside in borrowing costs
- SGD strength kept rise in SOR in check



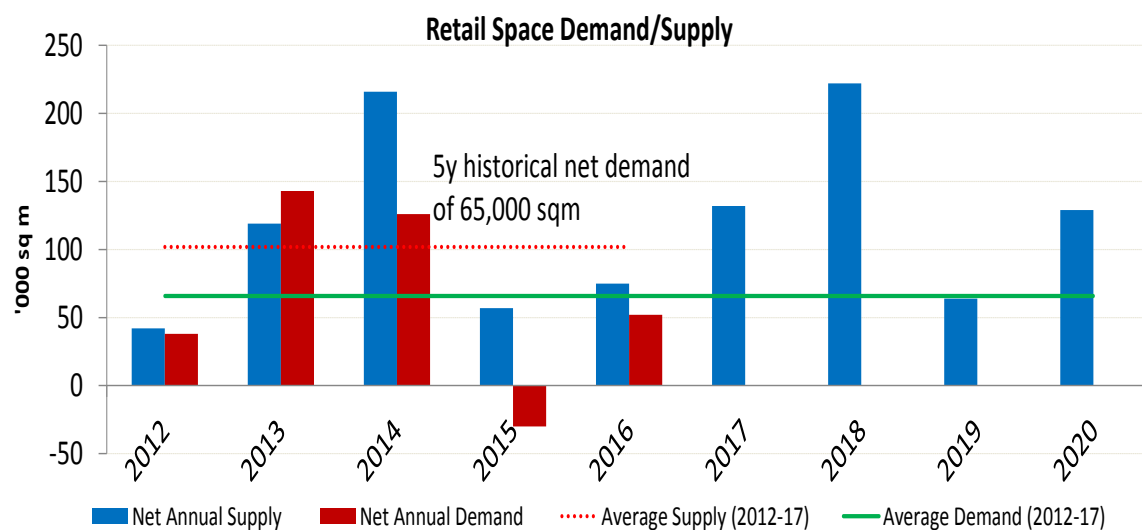
Source: Bloomberg, Phillip Securities Research (Singapore)



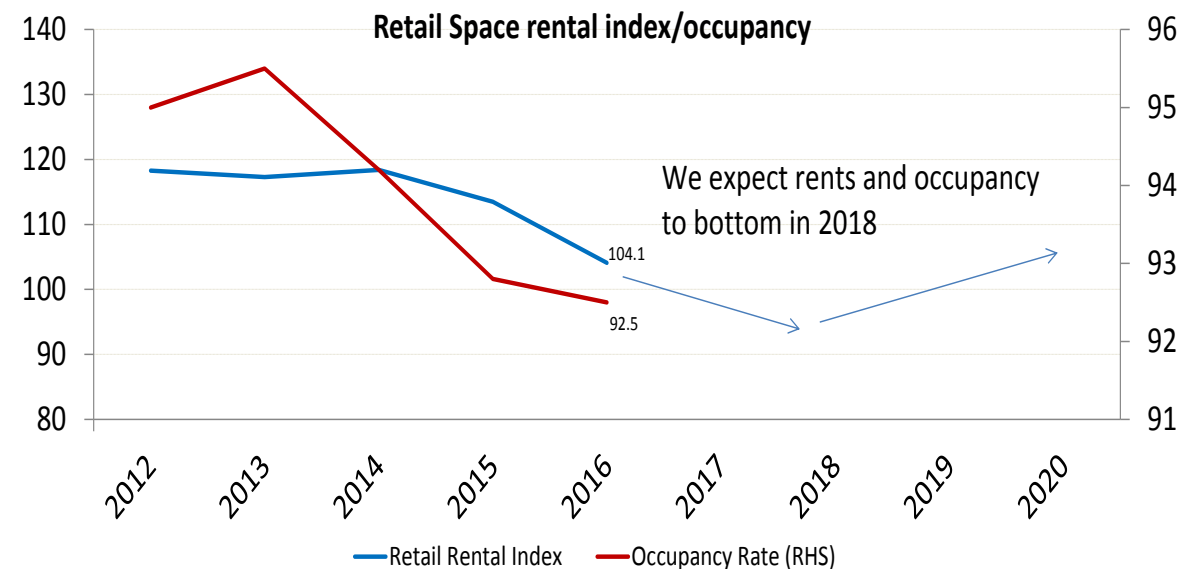
### 3. What is the outlook for each S-REIT sector – Retail/Commercial/Industrial/Hospitality?

- Apart from retail, most other sectors face tapering supply after peak/surge in 2017
- Easing supply post 2017 should build base for rental rates to climb

**Retail is facing increased supply amidst falling demand and the threat of online retailers like Amazon. Nonetheless, retail sales showing signs of stabilization. We expect rents to bottom in 2018.**



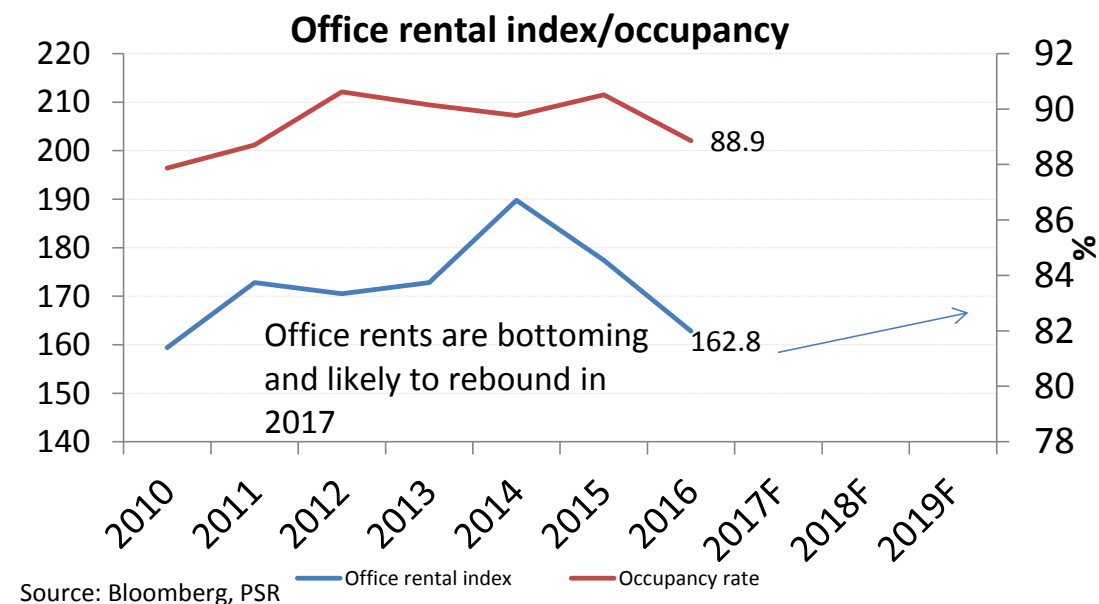
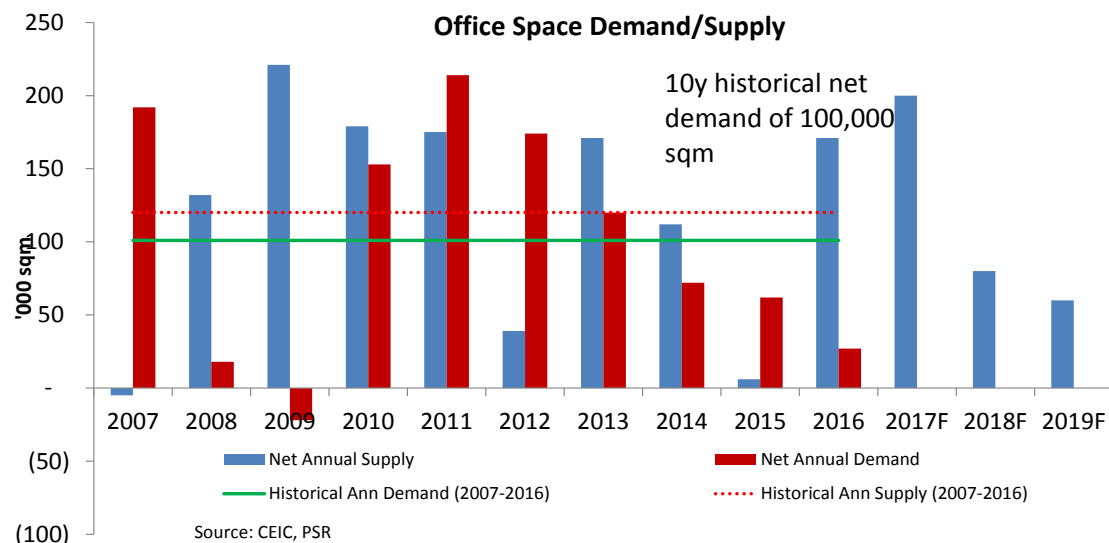
Source: Bloomberg, PSR



Source: Bloomberg, PSR

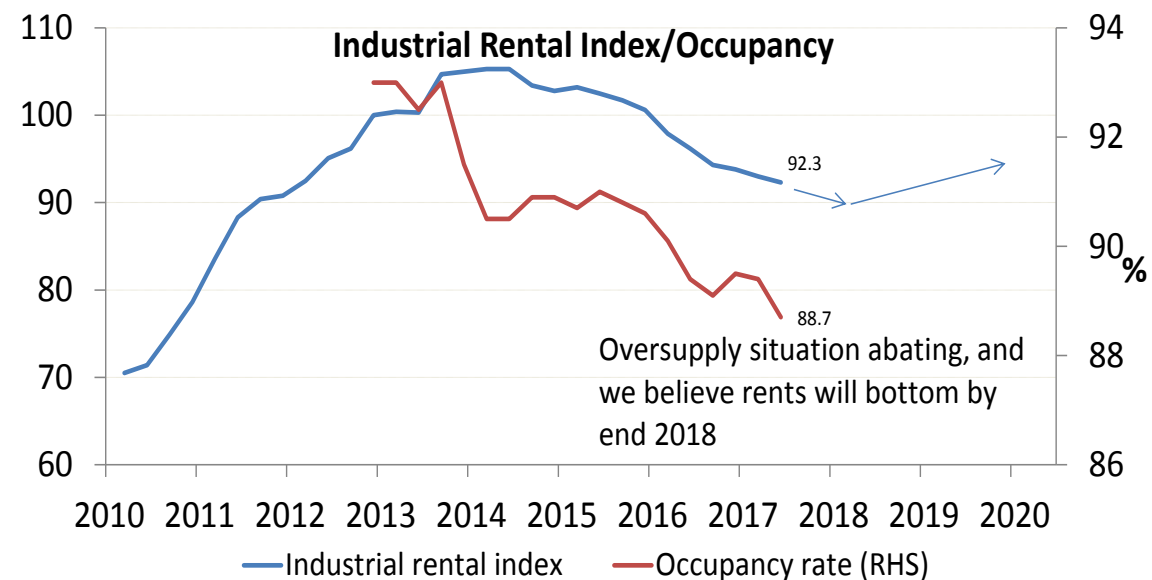
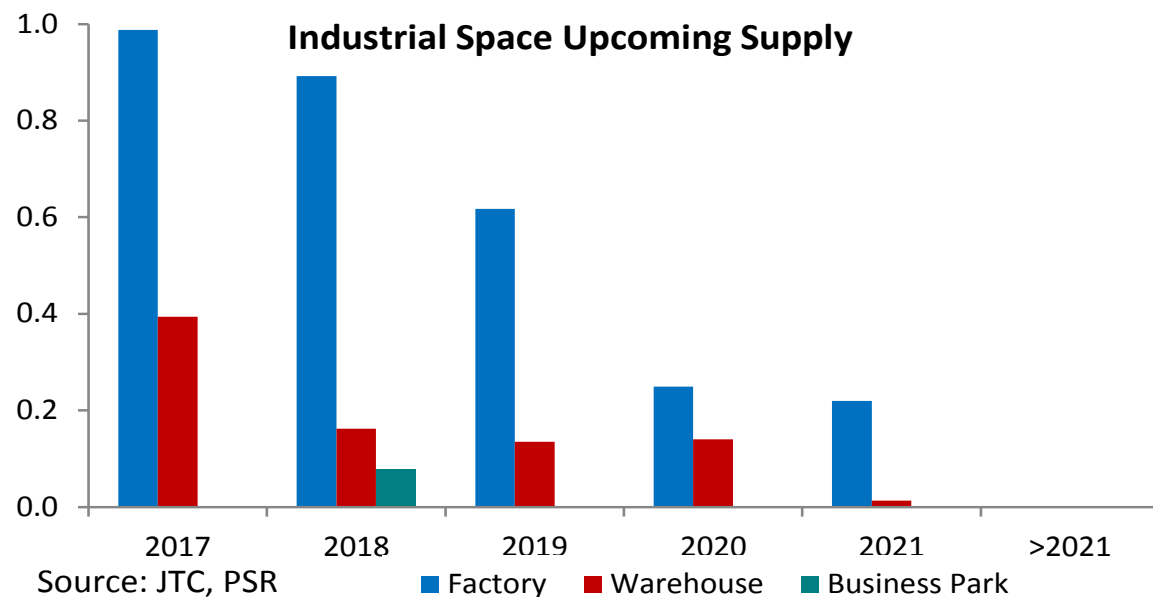
### 3. What is the outlook for each S-REIT sector – Retail/Commercial/Industrial/Hospitality?

- Office Supply tapering off after 2017.
- Office rents showing signs of stabilising. We expect office rents to rebound this year



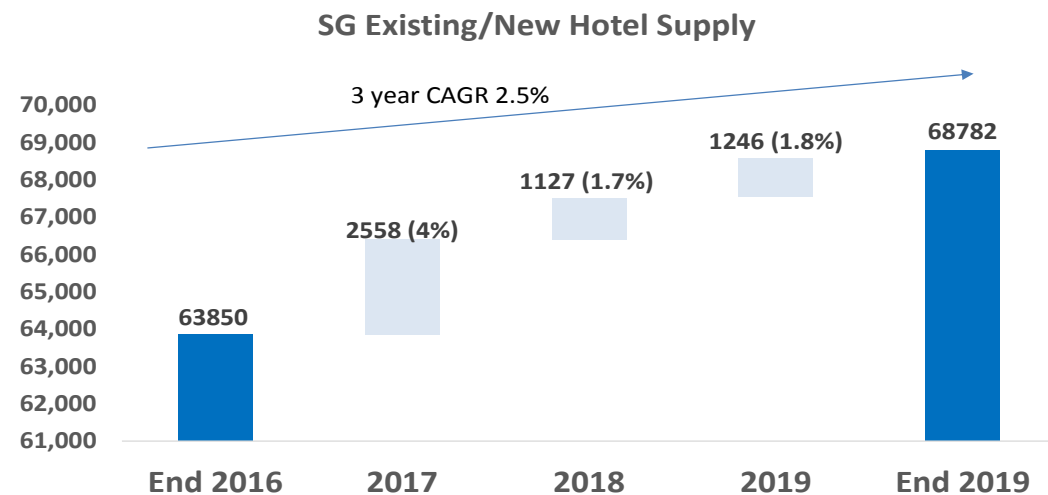
### 3. What is the outlook for each S-REIT sector – Retail/Commercial/Industrial/Hospitality?

- Industrial Supply is tapering off after 2017
- Industrial activities are also picking up. We expect industrial rents to bottom by end-2018

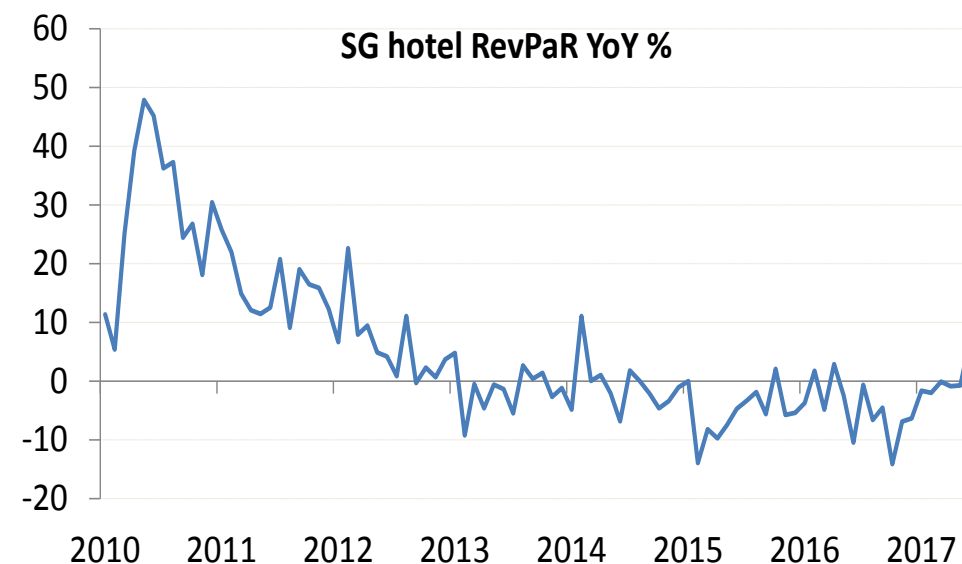


### 3. What is the outlook for each S-REIT sector – Retail/Commercial/Industrial/Hospitality?

- Hotel Supply is tapering off after the 4% increase in 2017
- SG Hotel RevPAR showing signs of stabilisation over the past half year – latest reading near 2y high



Source: JLL, CDLHT, PSR

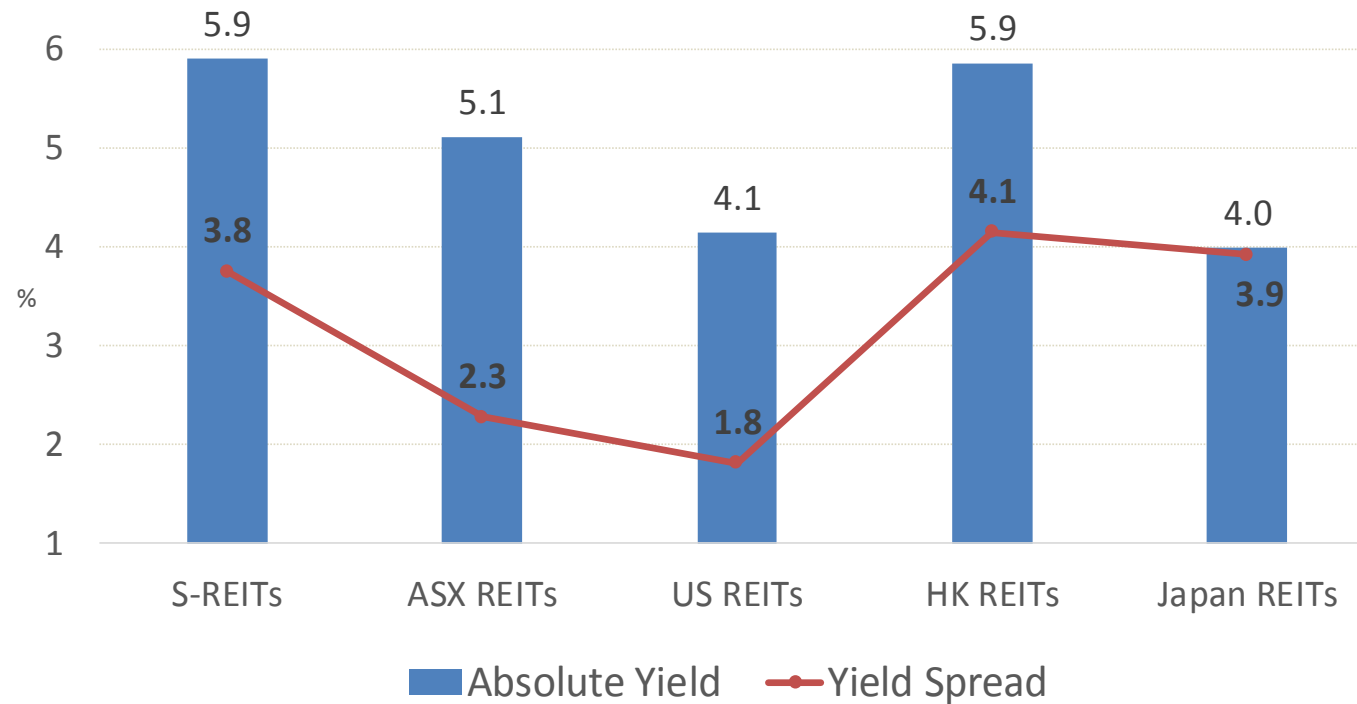


Source: CEIC, PSR

## 4. How does SG REITs compare with regional REITs?

- S-REITs trade at the highest absolute yield of 5.9% vs the other major REIT markets
- Yield spread of 3.8% is third behind that of HK and Japan REITs

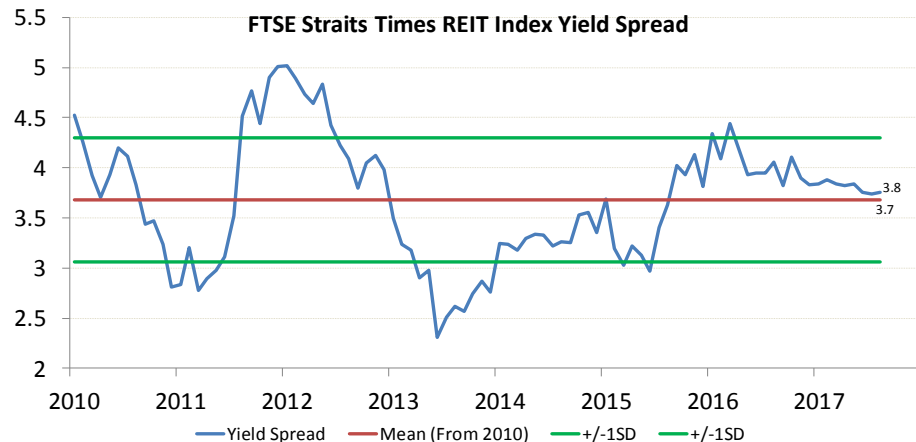
**Regional REIT markets absolute and yield spreads - S-REITs offer the highest absolute yield and also one of the highest yield spreads**



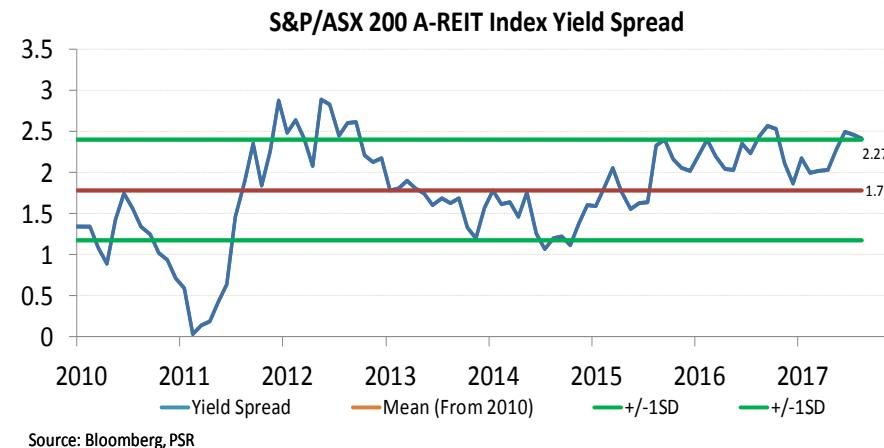
Source: Bloomberg, PSR

## 4. How does SG REITs compare with regional REITs?

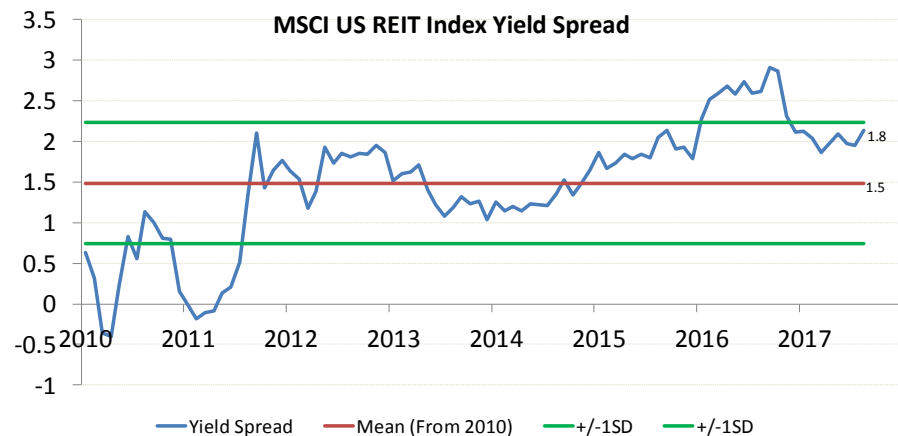
### S-REITs yield spread at 3.8%, close to post-GFC average spreads



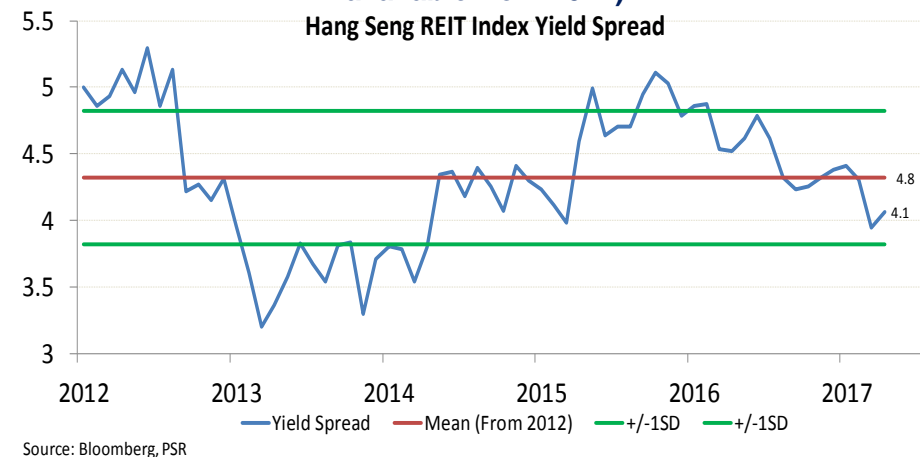
### Australian REITs yield spread at 2.3%, close to +1 s.d.



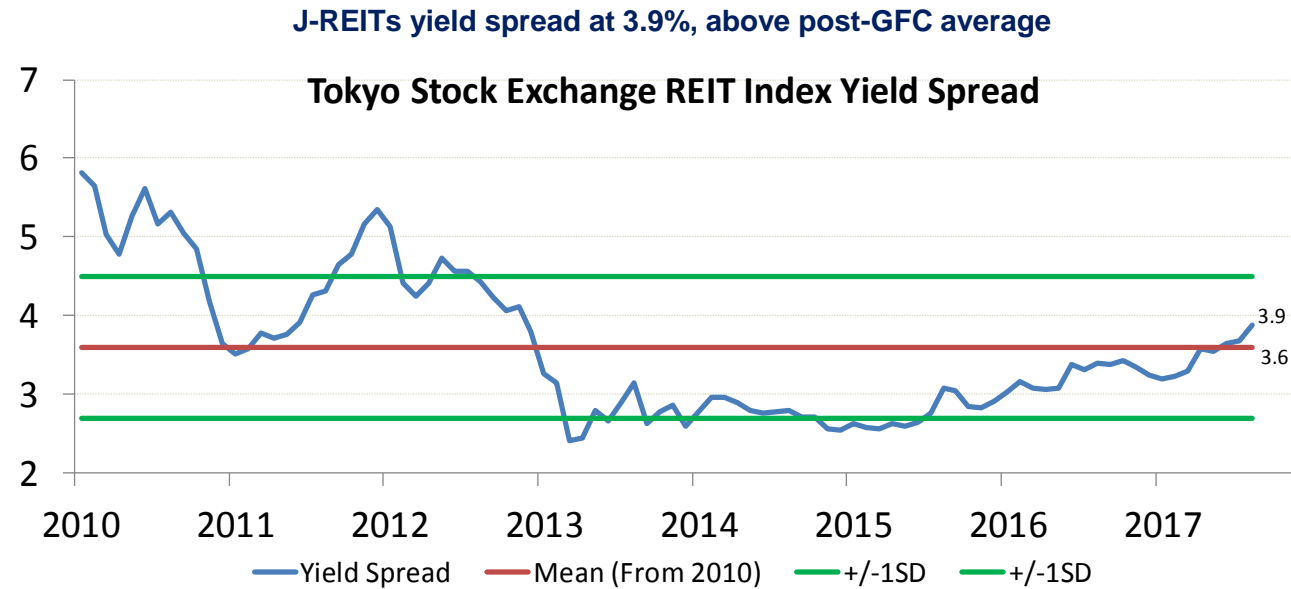
### US-REITs yield spread at 1.8%, close to +1s.d.



### HK-REITs yield spread at 4.2%, below post-GFC average spreads (using data available from 2012)



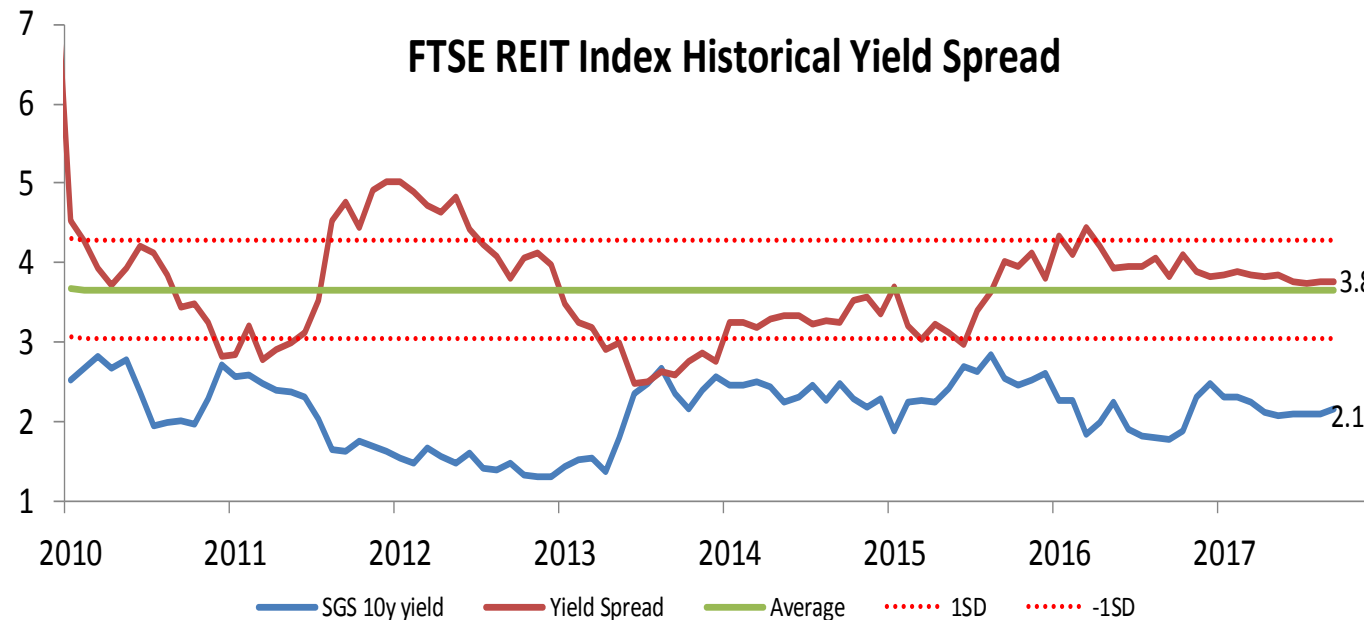
## 4. How does SG REITs compare with regional REITs?



Source: Bloomberg, PSR

## 5. Is valuation attractive from a yield angle? How does S-REITs' valuation stand now compared with historical valuations?

- S-REITs currently trade at a yield spread of 3.8 (S-REIT average yield 5.9% - Risk-free rate 2.1%) which is around post-GFC (2010-present) average



Source: Bloomberg, Phillip Securities Research (Singapore)



## 6. Is book value a good way to judge if a REIT is under or overvalued?

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- **Useful to compare across the industry (preferably similar sized REITs) and also against a REIT's own historical levels**
- **Big cap REITs typically trade at higher valuations than smaller REITs**
- **Access market conditions to judge if the discount/premium to NAV is warranted**

## 7. Growth in global economies is accelerating. Wouldn't investors be better off looking at growth stocks instead of stable stocks like REITs/telcos/utilities?

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- **Unlike telcos and utilities whose fees and tariffs are more highly regulated necessities, REITs are exposed to commercial rents and prices which are more market-driven, based on demand and supply**
- **Therefore REITs will also be able to capture upside in rents in an improving economy, and at the same time still continue paying out at least 90% of rental income**
- **Appeals to passive income investors with growth upside**

## 8. Is a REIT with a larger portfolio of freehold properties better than another REIT with a portfolio of shorter leasehold properties?

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- **NAV of the REIT would have priced in the freehold factor**
- **Freehold tenure vs another with a shorter leasehold, the freehold building usually trades at a lower cap rate**
- **Discount/premium to NAV would be next consideration**

## 9. How would you calculate and compare REITs' metrics and duration vs fixed income in falling, flat, rising interest rate environments?

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- **REITs do not have fixed maturities like bonds, not so straightforward to measure metrics like duration to measure price change sensitivity with fluctuations in interest rates**
- **Sensitivity of the REIT's earnings (not price) to fluctuations in interest rates or forex movements in the annual report under "sensitivity analysis"**

## 10. What are key risks of investing in REITs now?

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- **Accelerating inflation could lead to faster than expected rate hikes/tightening by the Fed**
- **So far, moderate economic growth with low inflation that is able to accommodate market-friendly monetary policies**
- **Any sharp upturn in inflation could reverse these trends**

# S-REIT Universe

	Mkt. Cap. (S\$m)	Price (S\$)	PSR RATING	PSR TARGET PRICE (S\$)	P/NAV	Trailing yield (%)	Total Returns YTD (%)	Gearing (%)	% of debt on fixed rate	ROE (%)	Average borrowing cost (%)	% debt expiring in 2017/current FY	% debt expiring in 2018/next FY	Year End
<b>Healthcare</b>														
PARKWAYLIFE REAL ESTATE	1,627	2.69			1.57	4.73	18.81	37.4	99.0	9.5	1.1	2.0	0.0	December
FIRST REAL ESTATE INVNT TRUST	1,058	1.36	NEUTRAL	1.32	1.34	6.34	11.56	31.0	90.9	5.4	4.1	34.1	35.9	December
<b>Hospitality</b>														
ASCOTT RESIDENCE TRUST	2,566	1.195			0.97	6.98	17.28	32.4	85.0	6.0	2.4	8.0	12.0	December
CDL HOSPITALITY TRUSTS	1,947	1.625			1.08	5.86	32.44	38.7	54.7	2.6	2.3	0.0	41.6	December
FAR EAST HOSPITALITY TRUST	1,269	0.685			0.76	6.09	18.14	32.8	71.0	1.8	2.5	5.1	28.2	December
OUÉ HOSPITALITY TRUST	1,434	0.795			1.04	6.46	27.07	38.2	100.0	1.7	2.8	0.0	34.2	December
FRASERS HOSPITALITY TRUST	1,384	0.75			0.99	6.58	18.76	34.1	87.8	6.2	2.5	14.4	15.4	September
ASCENDAS HOSPITALITY TRUST	947	0.84			0.95	6.76	23.87	32.7	78.3	5.2	2.8	11.6	37.0	March
<b>Retail</b>														
CAPITALAND MALL TRUST	7,163	2.02	NETURAL	2.01	1.07	5.36	15.07	34.7	97.0	9.0	3.2	3.9	15.7	December
MAPLETREE GREATER CHINA COM	3,276	1.165			0.93	6.36	25.37	39.4	76.0	11.1	2.7	0.0	18.0	March
SPH REIT	2,582	1.01			1.07	5.52	8.63	25.6	85.9	5.6	2.8	0.0	37.6	September
FRASERS CENTREPOINT TRUST	1,983	2.15	NEUTRAL	2.14	1.11	5.49	18.12	30.0	55.0	7.1	2.2	9.9	9.0	September
STARHILL GLOBAL REIT	1,680	0.77			0.82	6.52	7.00	35.3	99.0	5.5	3.2	0.0	19.3	June
CAPITALAND RETAIL CHINA TRUST	1,470	1.63	NEUTRAL	1.64	1.04	6.13	27.11	35.3	87.5	7.6	2.4	44.7	5.3	December
LIPPO MALLS INDONESIA RETAIL	1,228	0.435			1.18	8.09	26.75	30.6	70.0	3.7	N.A.	19.2	37.6	December
CROESUS RETAIL TRUST	899	1.165	ACCEPT OFFER		1.16	6.58	50.54	44.6	100.0	13.5	1.7	46.7	13.2	June
BHG REIT	369	0.74			0.89	7.22	21.70	32.4	45.0	7.3	3.7	37.2	5.2	December
<b>Commercial</b>														
CAPITALAND COMMERCIAL TR	5,970	1.655	ACCUMULATE	1.8	0.92	5.43	22.24	35.2	85.0	9.5	2.6	4.0	14.0	December
SUNTEC REIT	4,954	1.87			0.89	5.35	18.49	36.1	65.0	4.6	2.4	0.0	21.1	December
KEPPEL REIT	3,925	1.17			0.83	5.09	18.92	38.5	77.0	3.5	2.6	0.0	13.0	December
MAPLETREE COMMERCIAL TR	4,417	1.535			1.11	5.32	14.92	36.4	73.7	10.9	2.7	0.0	13.0	March
FRASERS COMMERCIAL TRUST	1,115	1.385			0.92	6.95	18.66	35.9	91.0	6.0	3.1	0.0	24.4	September
OUÉ COMMERCIAL REIT	1,110	0.72			0.82	8.80	7.92	36.4	80.7	5.4	3.4	0.0	46.6	December
MANULIFE US REIT	729	0.915			1.14	6.82	29.45	34.5	100.0	10.0	2.8	0.0	0.0	December
<b>Industrial</b>														
ASCENDAS REAL ESTATE INV TR	7,705	2.67	ACCUMULATE	2.86	1.30	5.83	23.67	33.9	72.2	8.0	2.9	18.0	21.5	March
MAPLETREE INDUSTRIAL TRUST	3,380	1.875	ACCUMULATE	1.98	1.32	6.18	18.39	29.8	72.8	10.9	2.8	10.0	16.2	March
MAPLETREE LOGISTICS TRUST	3,499	1.24			1.20	5.99	26.75	39.0	79.0	8.0	2.3	0.0	13.0	March
KEPPEL DC REIT	1,522	1.35	NEUTRAL	1.28	1.37	4.83	17.20	27.7	83.0	6.2	2.2	0.0	17.3	December
AIMS AMP CAPITAL INDUSTRIAL	915	1.43			1.03	7.55	14.44	36.3	83.3	1.1	3.6	0.0	40.6	March
CACHE LOGISTICS TRUST	793	0.845	NEUTRAL	0.86	1.10	8.57	12.04	43.4	62.9	-3.7	3.5	0.0	41.1	December
SOILBUILD BUSINESS SPACE REIT	735	0.7	NEUTRAL	0.73	0.98	8.46	21.09	37.9	87.0	0.2	3.4	0.0	32.3	December
SABANA SHARIAH COMP IND REIT	495	0.47			0.83	7.62	31.31	37.0	87.8	-6.6	4.0	15.7	24.5	December
VIVA INDUSTRIAL TRUST	912	0.94			1.19	7.71	32.43	39.1	85.2	7.6	3.9	0.0	19.6	December
ESR REIT	759	0.58			0.92	6.80	13.06	37.9	90.0	0.6	3.7	0.0	29.8	December
EC WORLD REIT	607	0.775			0.83	7.14	8.15	29.2	100.0	8.3	5.4	N.A.	N.A.	December
FRASERS LOGISTICS & INDUSTRI	1,632	1.08			1.16	6.55	22.94	29.3	79.0	4.1	2.8	0.0	0.0	September

Source: Bloomberg (Updated 4 Oct 2017), Debt data from Company Results as of 31 June 2017, PSR

**CapitaLand Commercial Trust sells Wilkie Edge for S\$280m**

**Mercatus buys Guthrie-Lee Kim Tah stake in Jurong Point**

Price of S\$2.2 billion works out to S\$3,343 psf on commercial NLA; deal reflects about 4.2% net yield

**GuocoLand's S\$1.62b bid won tender for Beach Road site**



Property giant GuocoLand has snagged a plum commercial site at Beach Road for S\$1.62 billion. The former Beach Road Police Station on the site also has to be conserved and restored under the tender requirements. Photo: CNA

**S'pore's hotel market draws investors**

Potential buyers are scouting for properties amid an anticipated rise in visitor arrivals; pipeline of hotel rooms to narrow after this year

**CCT divests One George Street for S\$1.18b into limited liability partnership**

9 Oct 17, 8.15am/11.15am Morning Call/Webinar

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# Strategy Update

## Phillip Monthly Report – October

Paul Chew  
Phillip Securities Research Pte Ltd  
9 October 2017



# Singapore strategy update – October

- Maintain Neutral : STI Target 3270 unchanged
- Macro
  - Trump Trade Redux: Tax cuts; chances are fairly good due to Nov18 elections; interest rate impact
  - Singapore macro: PMI (3-year high); Electronics PMI (7-year high); Exports (6-year high)
  - MAS monetary policy statement: neutral stance maintained; “extended period”
- BUY sustainable yield, property, coal and economic momentum
  - Yield: AsianPayTV, CCT, MINT, Ascendas REIT / Property: CapitaLand, Wheelock, Chip Eng Seng
  - Banyan Tree: large pipeline of hotel-management contracts for the next several years
  - Coal: strong production and beneficiary of SOE reform
  - Micro-mechanics: proxy to surge in semiconductor sales; Aug data up +24% (7-year high); \$380b
  - Dairy Farm: earnings are back to growth mode, supported by margin expansion
- Sector updates
  - Domestic retail soft; construction saw large spike; materials bottoming;
  - Hopes of strong hospitality fizzled out in Jul17 data but RevPAR near 2-year high
  - Property sales up 60% YoY in August, 2017 on track for best sales in five years
  - Private hospital volume moderately improved in August but YTD weak at +2% vs 2016: +10%
  - Banks triple tailwind: rising rates + strong loans growth + vibrant capital markets



9 October 17, 8.15am/11.15am Morning Call/Webinar

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# The Phillip 20

## September Monthly Review

Jeremy Ng

Phillip Securities Research Pte Ltd

9 October 2017

# Straits Times Index – Technical Analysis

STI Daily Chart : 3195 support succeeded in keeping the uptrend intact



-1.75% in Sept 17

Source: Bloomberg, PSR Red line = 20 period moving average, Blue line = 60 period moving average, Green line = 200 period moving average

# Realised P&L for September 17

## The Phillip 20 Portfolio - Realised P&L for September 2017

Company Name	Ticker	L	Entry Date	Entry price	Exit date	Exit Price	P&L
MOYA ASIA	5WE	Long	<a href="#">23-Aug-17</a>	0.117	<a href="#">5-Sep-17</a>	0.115	<b>-1.71%</b>
MAN ORIENTAL USD	M04	Long	<a href="#">6-Sep-17</a>	2.040	<a href="#">19-Sep-17</a>	2.630	<b>28.92%</b>

*\*Average gain is calculated based on equal weight placed on each trade*

Realised Average Gain: **1.36%**

Source: Bloomberg, PSR

# New Entries for September 17

The Phillip 20 Portfolio - September new entries							
Company Name	Ticker	L	Entry Date	Entry price	Stop Loss	Last price	Current gain/loss (%)
JUMBO	42R	Long	<a href="#">22-Sep-17</a>	0.575	0.525	0.570	<b>-0.87%</b>
SINGAPORE O&G	1D8	Long	<a href="#">14-Sep-17</a>	0.490	0.420	0.470	<b>-4.08%</b>
SPH	T39	Long	<a href="#">25-Sep-17</a>	2.780	2.530	2.690	<b>-3.24%</b>
<i>*Average gain is calculated based on equal weight of 5% placed on each trade</i>						Average Unrealised Gain/loss:	<b>-0.41%</b>

Source: Bloomberg, PSR

# Watchlist

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- China Sunline
- Sunningdale Tech
- Straits Trading
- Jiutian Chemical
- GSH
- Hotung Inv
- Moya Asia
- Wing Tai
- Fischer Tech
- Asian Pay TV
- UOL
- Avi-Tech
- Silverlake Axis
- Metro
- Yongnam
- Frasers L&I Tr
- Micro-Mechanics
- Breadtalk
- YZJ Shipbldg SGD
- AEM
- Genting Sing
- Memtech Intl
- Wheelock Prop
- Venture
- Banyan Tree
- Serial System
- Sunright
- Oxley
- Cityneon
- Centurion

# Current Portfolio

The Phillip 20 Portfolio - Our top technical picks, as of 5 October 2017							
Company Name	Ticker	L	Entry Date	Entry price	Stop Loss	Last price	Current gain/loss (%)
BLACKGOLDNATURAL	41H	Long	<a href="#">6-Jul-17</a>	0.137	0.103	0.118	-13.87%
COGENT	KJ9	Long	<a href="#">22-Mar-17</a>	0.780	0.725	0.975	25.00%
ELLIPSIZ	BIX	Long	<a href="#">3-Aug-17</a>	0.645	0.575	0.825	27.91%
FRENCKEN	E28	Long	<a href="#">20-Jul-17</a>	0.525	0.445	0.540	2.86%
F & N	F99	Long	<a href="#">24-Mar-17</a>	2.220	2.220	2.520	13.51%
GOLDEN ENERGY	AUE	Long	<a href="#">2-Aug-17</a>	0.425	0.360	0.455	7.06%
HANWELL	DM0	Long	<a href="#">13-Sep-17</a>	0.345	0.295	0.340	-1.45%
HAW PAR	H02	Long	<a href="#">18-Aug-17</a>	10.930	10.500	12.170	11.34%
HI-P	H17	Long	<a href="#">3-Oct-17</a>	1.410	1.265	1.530	8.51%
JUMBO	42R	Long	<a href="#">22-Sep-17</a>	0.575	0.525	0.570	-0.87%
MIYOSHI	M03	Long	<a href="#">23-Aug-17</a>	0.074	0.062	0.075	1.35%
PANUNITED	P52	Long	<a href="#">22-Aug-17</a>	0.550	0.500	0.595	8.18%
RIVERSTONE	AP4	Long	<a href="#">12-Jul-17</a>	1.065	0.995	1.040	-2.35%
SPH	T39	Long	<a href="#">25-Sep-17</a>	2.750	2.530	2.690	-2.18%
SINGAPORE O&G	1D8	Long	<a href="#">14-Sep-17</a>	0.490	0.420	0.470	-4.08%
THAIBEV	Y92	Long	<a href="#">14-Mar-17</a>	0.955	0.825	0.910	-4.71%
UMS	558	Long	<a href="#">29-Sep-17</a>	0.985	0.885	1.025	4.06%
VALUETRONICS	BN2	Long	<a href="#">14-Jul-17</a>	0.825	0.740	0.975	18.18%
<i>*Average gain is calculated based on equal weight of 5% placed on each trade from their respective entry dates</i>						Average Unrealised Gain/loss:	4.92%

## Monthly Phillip 20 realised performance:

<a href="#">May 17 performance</a>	3.37%
<a href="#">June 17 performance</a>	0.33%
<a href="#">July 17 Performance</a>	2.73%
<a href="#">August 17 Performance</a>	-1.26%
<a href="#">September 17 Performance</a>	1.36%
Cumulative return since inception	11.45%

*\*Take profit will be updated accordingly in the future technical pulse report*

Source: Bloomberg, PSR



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# Ask Questions!

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